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SUBJECT: COMPETING ECONOMIC PLANS: CHAVEZ AND ROSALES

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Classified by Economic Counselor Andrew N. Bowen for reason
1.4(d).

SUMMARY

¶1. (U) Consensus opposition candidate Manuel Rosales released his "Proposal for Change toward a New Social Democracy" on October 25. This platform details his populist economic plans for distributing the country's oil wealth to the neediest through "Mi Negra" debit cards, respect for private property, public works projects and an important role for foreign and private sector investment. While Chavez has not published an economic platform, through assumptions made in the proposed 2007 budget and his public addresses, it is clear that he intends to continue with large public outlays while simultaneously increasing the state's role in the economy and thereby opportunities for BRV patronage.

THE BETTER HALF

¶2. (SBU) Consensus opposition candidate and Zulia governor Manuel Rosales has repeatedly emphasized the importance of private property and considers it a fundamental value that the state must protect. At the same time, many of his prescriptions are very populist in nature and demonstrate his focus on Venezuela's impoverished classes. Attracting investment seems key to the Rosales platform and it demonstrates a clear understanding of the pre-requisites for investment: macroeconomic stability, an efficient and transparent judicial system, clear and predictable rules of the game, personal security, a limited bureaucracy and above all protection of private property. (Comment: Transparency and efficiency are sorely lacking in the BRV and Venezuela is ranked 164 out of 175 countries for ease of doing business according to the World Bank's Doing Business in 2007. Venezuela lies between Egypt and Burundi in this survey. End Comment.) Improving the business climate (through actions such as the elimination of the labor solvency requirement and

numerous other BRV measures which hamstring the private sector) would encourage firms to invest and foreign direct investment (FDI) to return to Venezuela.

¶13. (C) The centerpiece of Rosales's economic plan is the debit card called "Mi Negra." This card, which the campaign is starting to distribute across Venezuela, would go to around 2.3 million Venezuelan households in poverty. (Note: Mention of this part of this program received the loudest applause at the October 7th Rosales "Avalanche" march. End Note.) A national census would define the levels of participation. In addition, Mi Negra would be available to the recently unemployed, with an emphasis on combating youth unemployment. (Comment: A recent discussion with the Rosales campaign demonstrates that the plan is not entirely thought out and an advisor admitted to econoffs that it remains to be seen how they would wean people off of the debit cards and promote self-sufficiency. End Comment.)

¶14. (SBU) Mi Negra participants would receive monthly disbursements based on Venezuela's oil revenue. It would replace some of the missions and other hand-out programs in favor of direct distribution. Rosales claims this will eliminate much of the corruption and political victimization currently affecting who receives social benefits in Venezuela. According to Rosales campaign estimates, the monthly stipend would range from 600,000 to 1,000,000 Bs (or USD 280 to USD 465). This works out to USD 6-10 billion annually, though the plan calls for distributing only 20 percent (currently about USD 6 billion) of Venezuela's oil income in this manner. (Comment: While it is clear that many of the BRV missions are inefficient (literacy program Mission Robinson costs USD 500 per student, making it the most expensive literacy program in the world) it is difficult to determine the actual value of Mi Negra or its economic viability beyond its populist appeal. Estimates are hard to come by, as missions are funded by the regular budget, off-budget funds and via PDVSA, but one economic consultancy

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puts BRV spending on the missions for 2006 at around USD 7 billion. According to Central Bank (BCV) statistics, Venezuela's "official" revenue from oil for 2006 will be around USD 29 billion (including income from royalties, taxes and PDVSA dividends and spending). End Comment.)

¶15. (U) A Rosales administration would work to improve macroeconomic policies, including restoring BCV autonomy. An improvement in BCV governance would allow the government to deal more effectively with inflation and currency rate fluctuations as well as improve banking sector control and oversight. At the same time, Rosales plans "massive public investment" to stimulate private investment in sectors such as construction and tourism (that require lots of workers) as well as to create training institutes and microcredit programs to promote small and medium enterprises.

¶16. (SBU) Rosales has also promised to create a Medicare program for people over 65 years old, build 1.5 million new homes, launch a massive effort to improve the country's infrastructure (including USD 1.8 billion for the electrical grid) and create incentive programs to hire new employees, especially youth and single mothers. (Comment: As with most any political campaign it is doubtful that he can keep all of these promises. The housing deficit (currently in excess of 1.7 million) and crumbling infrastructure are long-term problems that Chavez has failed to address, despite being in office for eight years and enjoying record high government revenues. End Comment.)

MORE OF THE SAME

¶17. (SBU) What Hugo Chavez lacks in specificity, he makes up for in verbiage. The Chavez campaign has produced no

economic plan for his re-election bid and our efforts to meet with campaign officials have been spurned. The 2007 budget proposal (septel) implies that spending priorities will remain the same for the next year with moderate increases in spending and the majority of spending devoted to social expenditures. The budget proposal represents a 32.4 percent nominal increase over the original 2006 budget (inflation is expected to be around 15 percent in 2006), though a 11.2 percent nominal decrease when compared to the current 2006 budget with all subsequent additional credits. Starting November 1 the BRV will begin to pay out the annual bonus to 1.6 million public sector workers, which this year will constitute 3 months additional salary and is expected to cost the BRV USD 3 billion (or 1.9 percent of GDP). (Comment: The bonuses are normally paid out in December, but Chavez announced that they will be paid early (this week), before the elections. End Comment).

¶18. (SBU) Chavez has repeatedly stressed the importance of domestic production, known in the BRV as "endogenous development." At the same time the over-valued exchange rate encourages importation over production, and it seems likely that he will continue, if not increase the importation of capital goods and machinery for state-owned enterprises. The BRV will complete several major infrastructure projects (such as the new bridge from Caracas to La Guaira, the opening of line 4 of the Caracas metro and the second bridge over the Orinoco river) and probably announce several new projects involving roads and trains. Venezuela and China recently announced a USD 6 billion investment fund (2 from Venezuela and 4 from China) to construct a railroad, highways and housing. (Comment: This deal and potential future deals demonstrate Chavez's belief that state-sponsored and directed investment are the primary means of achieving his economic goals. Similarly, he maintains that the government will ease the housing crunch through state housing construction. It hasn't worked so far, the housing deficit (now at 1.7 million homes) has increased by 45 percent during his tenure. End Comment.)

¶19. (U) PDVSA will likely continue to transfer "excess" revenues (currently USD 100-120 million per week) to the Fund for National Development (FONDEN), and it is likely that BCV reserves in excess of the "appropriate" amount (USD 28-29

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billion) will also be transferred to FONDEN next year. FONDEN will continue to fund social expenditures, including parts of the missions as well as infrastructure investments and Bolivarian financial largess (for example Argentine bonds).

¶10. (SBU) The missions will remain the primary means for providing subsidized staples (Mercal), social services (Barrio Adentro, Mission Robinson, others) and combating unemployment. The latest BRV unemployment figures, showing unemployment at 9.5 percent, are highly deceptive, as people who work more than 1 hour a week, including in the informal sector, or participate in Missions are not considered unemployed by the National Statistics Institute. All these programs foster dependence on the BRV rather than creating sustainable employment. An increased focus on community councils, which as un-elected ad-hoc groups bypass local and state governments and receive funding directly from the executive, will detract from overall efficiency and improve the BRV patronage machine. (Note: The community councils were created in April 2006 and have been authorized up to USD 650 million this year. The budget for 2007 authorizes USD 1.4 billion. End Note.) Additional missions may be announced, such as Villa Nueva which is designed to increase housing construction.

COMMENT

¶11. (SBU) Chavez's campaign lacks a platform or even much in the way of campaign literature, other than to promise more of the same. His omnipresence on television and in the press is event oriented and the BRV seems focused on producing projects (or at least announcing them) to stay on the front page. The recent inauguration of the train from El Tuy to Caracas a few Sundays back is a good example. The grand opening was covered live on most television stations for hours and was accompanied by a fireworks celebration that rivaled New Year's Eve. What was less well covered was the fact that the transit authority had to take trains from other commuter and subway routes to open the new line and it left hundreds of thousands of commuters stranded Monday morning. In another obvious pre-election move, Chavez also decreed that the new line would be free until December 30.

¶12. (C) Rosales is being advised by some well-known Venezuelan economists and their views are evident in his campaign platform. At a recent meeting with econoffs, one of the main advisors to the Rosales campaign admitted that the campaign was not making headway with the "chavista lite" and "ni ni" (neither Chavez nor Rosales) voter groups that it needed in order to win the election. He observed that their own polling showed at least a 15 point deficit with Chavez, and that it would be increasingly difficult to close that gap in the month that remains. While it is doubtful that, if elected, Rosales could keep all of his campaign pledges, they represent a sound macroeconomic plan to wean the country off of reliance on handouts and towards a policy that promotes sustainable economic growth and real job creation without the sole stimulus of historically high oil prices.

WHITAKER